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USSR: Subsidized Western Credits

The USSR has used Western government-backed credits to finance a large share of its imports of plant and equipment. The terms of these credits have generally been considerably better than those for non-guaranteed commercial bank credits. Commercial rates probably ran about 4-5 points in 1980 and ~~5~~ 6 points in 1981 higher on average than did those on official lending. The saving to the Soviets in interest payments on about $8 billion of official debt was upwards of $350 million in 1980 and $500 million in 1981.[1] This represents about 1.5 percent of total Soviet hard currency expenditures in 1981. To the Western governments involved it was an inexpensive way of promoting employment. This difference was offset to some extent--at least in the case of West Germany--by higher prices charged on the equipment covered by the credits. 25X1

If Western governments were to no longer grant concessionary interest terms to the USSR, Moscow's additional burden would be

1. Data presented in this memorandum are rough estimates. To derive estimates of the value of the subsidies to the USSR, we assumed that all of the official debt was serviced at the estimated commercial rate prevailing in that year, i.e., a floating rate. In reality, much of the debt would have been at fixed rates established in previous years. Given the sharp increase in commercial rates in recent years, our estimates probably are a maximum. Information on the actual commercial rates charged the USSR by Western banks is sketchy. For these rates we use domestic bond yields as a proxy. Moreover, we do not have complete information on other charges such as commitment fees. In the case of the actual interest charged on government-backed credits, our information is considerably better but still far from complete. Finally, in the absence of good reporting, we have had to estimate the amount of outstanding debt (credits actually drawn less repayments) on government-backed credits from individual Western countries.

small for the first two to three years. In the first place, the entire impact would not be felt immediately as it would take several years for all of the old official debt to be worked off. Official credits extended under earlier agreements would be drawn at lower, concessionary rates. Second, new official credits granted to the USSR presumably will be on terms much closer to commercial rates. The OECD guidelines agreed to in October 1981--and in effect for six months beginning in November--call for credits to "intermediate countries" (which includes the USSR) to carry an interest rate of 11.0 percent on credits of 5 - 8½ years. Assuming commercial rates average 13.0 percent over the next few years and that the Soviets continued to receive roughly $2 billion a year in official financing, the cost of servicing the debt would by 1985 exceed by only $200 million the cost under more favorable terms. [redacted] 25X1

In the case of West Germany, the USSR's saving in 1981 of roughly $100 million--assuming a four-point spred between concessionary and commercial rates--on its estimated debt on official credits of about $2.5 billion probably was largely offset by higher contract prices. Unlike other major Western trading partners, Bonn does not provide extensive credit support in the form of official interest rate subsidies for its medium-term exports. West German credits are guaranteed by the government. When the Soviets demand interest rates below market levels, the exporting firm usually makes up the difference between the negotiated rate and the market rate by raising the selling price and transferring this difference to the bank. The

Soviets, who are well are of this practice, go along with it because for appearance's sake and because even with the higher prices effective interest rates have been relatively low by international standards. [redacted] 25X1

The saving to the USSR on its interest payments to Italy was perhaps $110 million. This assumes a spread between the subsidized and commercial rate of 11 percentage points and a Soviet debt on official Italian credits of $1 billion. Italy was one of the first Western countries to offer subsidized trade credits to Moscow, which has never been hesitant about pressing the Italians for loans at ewxceedingly favorable terms. In the case of a mid-1977 credit package, the Soviets got the Italians to agree to a 7.55 percent interest rate, which was below the OECD consensus rates. The Italians claimed that the new line of credit was really an extension of previous agreements and therefore permissible under the grandfather clause of the "Gentlemen's Agreement" on export credits. [redacted] 25X1

In the case of the United Kingdom, Soviet interest payments in 1981 would have been $35 million higher if all official debt--estimated at about $700 million--had been contracted at commercial rates. And in the case of France, the cost would have been roughly $140 million assuming a difference of 7 points between the subsidized and the commercial rate and a debt on official credits of $2 billion. Although not alone in occasionally breaking and often bending the "Gentlemen's Agreement" on export credits, Paris has been one of the most reluctant to tighten the terms of the agreement. The French have feared that in the absence of attractive financing terms they would be unable to compete with US, West German, or Japanese banks or trading houses. 25X1

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